

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C. 20268-0001

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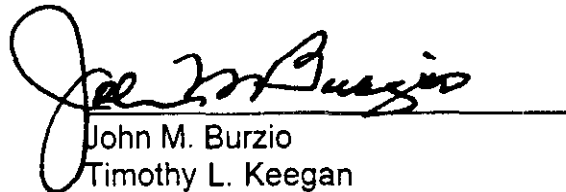
POSTAL RATE & FEE CHANGES, 1997

Docket No. R97-1

RESPONSES OF TIME WARNER INC.
TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA:
TO WITNESS HALSTEIN STRALBERG (NAA/TW-T1-1-5)
(February 5, 1998)

Time Warner Inc. (Time Warner) hereby provides the responses of witness Halstein Stralberg (TW-T-1) to the following interrogatories of the Newspaper Association of America: NAA/TW-T1-1-5 (filed January 22, 1998). Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

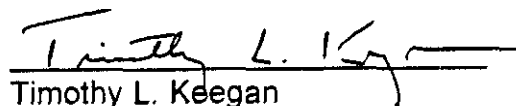

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the following document on all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.


Timothy L. Keegan

February 5, 1998

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
NEWSPAPER ASSOCIATION OF AMERICA**

NAA/TW-T1-1. Please refer to your direct testimony at page 3, lines 25-27. You state that Professor Bradley's conclusion that mail processing costs are less than 100 percent volume variable is "...confirmed by the considerable slack time in mail processing evidenced by the large and fast growing pool of break time and other general overhead "not handling" costs identified in IOCS." Please explain how this "slack time" related to the growth in break time and not handling costs supports the argument that mail processing costs are less than 100 percent volume variable.

NAA/TW-T1-1. The existence of considerable slack time means that if postal volume were to increase significantly the Postal Service would have an opportunity to get more work out of its existing workforce, rather than just hiring more employees. In other words, mail processing costs should not increase as much as volume. Conversely, given the Postal Service's apparent inability to reduce its workforce to take full advantage of automation, it is unlikely that, given a volume decline, the Postal Service would be able to reduce its mail processing costs accordingly.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
NEWSPAPER ASSOCIATION OF AMERICA**

NAA/TW-T1-2. Please refer to your direct testimony at page 4, lines 28-30, and page 5, lines 1-9. You discuss the treatment of volume variable mixed mail and not handling costs.

- (a) Please confirm that your sole justification for arguing that the Commission should consider treating mixed mail volume variable costs as institutional costs is that the Postal Service has not shown a sufficient causal link between mixed mail costs and specific subclasses of mail. Please explain if you cannot confirm.
- (b) Please provide an estimate of the amount of volume variable mixed mail costs you believe should be treated as institutional costs and provide the method and calculations you use to derive this estimate. If you cannot provide an estimate, please explain why not.
- (c) If the “highly anomalous” growth in not-handling costs that you identify were well understood and were accurately linked (in your estimation) to the delivery of specific subclasses of mail, would attribution be justified? Please explain.

NAA/TW-T1-2.

- a. Confirmed.
- b. I have not developed an estimate of the amount of volume variable mixed mail costs that should be treated as institutional costs in this docket. My testimony simply urges the Commission to seriously consider whether sufficient evidence exists in this docket to link mixed mail and not handling costs to subclasses. My testimony, in the part you cite, expresses particular concern about certain not handling costs (those with activity codes 5750, 6521, 6522 and 6523) for which I consider the lack of established causal connections to specific subclasses to be even more serious than for the mixed mail.

With regard to mixed mail, the lack of established causal connections to subclasses is in my opinion worst for empty containers and mixed mail containers, for which the Postal Service collects no subclass data. Empty and other unidentified container costs are \$400.174 million volume variable. The corresponding accrued costs are \$537.895 million. Mixed mail container costs are \$440.066 million volume variable or \$594.734 accrued.

- c. Yes with regard to the volume variable portion of these not handling costs.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
NEWSPAPER ASSOCIATION OF AMERICA**

NAA/TW-T1-3. In your direct testimony, you discuss an alternative cost distribution for clerk and mailhandler costs. Would your distribution methodology yield the same cost distribution as the methodology used by the Commission in Docket No. R94-1. If no, please describe and quantify any differences by class and subclass of mail.

NAA/TW-T1-3. The methodology I propose for distributing clerk and mailhandler costs is much closer to the Commission's R94-1 methodology than the approach advocated by witness Degen. Yet there are some differences between my method and the R94-1 method. These differences include:

- My method is applied to the FY96 IOCS data rather than to the FY93 data. Between FY93 and FY96 the Postal Service made some changes in the method of collecting IOCS data.
- Whereas the Commission's R94-1 method distributed IOCS tally costs, my method distributes the accrued pool costs associated with each tally, modified by the pool-specific volume variability factors developed by witness Bradley.
- Whereas my method generally leads to lower attribution levels, due to Bradley's variability factors, it also partially attributes some costs that previously were considered fully institutional.
- My method superimposes a segregation of costs by office type (MODS, NonMODS and BMC) on top of the traditional segregation by CAG.
- In the R94-1 methodology, costs associated with breaks/personal needs, clocking in/out and handling empty equipment were treated as overhead costs distributed in proportion to the distribution of all other processing costs to subclasses and special services. My method distributes breaks/personal needs and clocking in/out costs separately within office type and CAG. It distributes the "handling" portion of "empty equipment" costs differently from the "not handling" portion. Neither portion is distributed to special services. Both are distributed within office type, CAG and basic function, but the "handling" portion is distributed similarly to the mixed mail costs.

As to the difference in impact on classes and subclasses between my distribution method and the Commission's R94-1 method, an approximation can be seen by comparing Exhibit 2 in my testimony with the segment 3 cost distribution given in the Cost Segments and Components report for FY96 in USPS LR-H-2.

RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF NEWSPAPER ASSOCIATION OF AMERICA

NAA/TW-T1-4. In Docket No. R94-1, you presented arguments for treating certain mail processing overhead costs as institutional costs and alternative options for distributing these costs across mail classes and subclasses. These arguments are similar to those you are presenting in the current proceeding. In Docket No. R94-1, the Commission did not accept the suggestion to exclude mixed-mail data from the distribution of mail processing costs, concluding that, "Using the counted mixed-mail tallies as part of the direct tally base for distributing uncounted mixed-mail costs is the preferable approach." [p. 3072]

- a. Please describe any differences in the arguments you are putting forward in this proceeding compared to your testimony in Docket No. R94-1.
- b. Do you believe that the Commission's decision was incorrect in Docket No. R94-1?
- c. What circumstances, if any, have changed to suggest that the Commission should reverse its previous decision in the current proceeding? Please explain.

NAA/TW-T1-4.

- a. The focus of my arguments in the present docket is to point out the numerous fallacies in the approach to mail processing costs distribution proposed by witness Degen. Additionally, I present an alternative distribution method, that attributes the same costs as those attributed by Degen, but is closer to the traditional approach and avoids Degen's reliance on numerous unverified and sometimes demonstrably erroneous assumptions. My testimony also shows that, due to the paucity of information about the true cost relationships in mail processing, there simply is no accurate and reliable way to distribute these costs to subclasses and special services.

I presented two testimonies in R94-1. My direct testimony demonstrated the unreasonableness of the sharp increases in mail processing costs charged to certain subclasses, including Periodicals, since FY86, and urged the Commission to take this into account when setting rates. My rebuttal testimony: (1) pointed out fallacies in the mail processing cost distribution approach that had been proposed by UPS witness Blaydon; (2) proposed a realignment of the cost distribution produced by IOCS based on an analysis of trends in subclass costs between FY86 and FY93; and (3) argued for increases in certain worksharing discounts.

- b. The Commission's treatment of counted mixed mail item tallies in R94-1, when it included such tallies with the direct tallies before distributing uncounted mixed mail costs, is the same method that I propose in my current testimony.

As to whether the Commission's R94-1 decision on this subject was correct or incorrect, I can only reiterate the conclusion expressed in my current testimony, namely that there simply is no fully satisfactory way to distribute mail processing costs based on the information currently available, but that the method adopted by

the Commission in R94-1 and proposed in my testimony in this docket is more reasonable than that proposed by witness Degen, in light of such information as is available.

- c. The mixed mail distribution method that I recommend in this docket is essentially the same method that the Commission chose to use in R94-1. I do not believe current circumstances warrant the changes to that method suggested by Degen.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
NEWSPAPER ASSOCIATION OF AMERICA**

NAA/TW-T1-5. Please refer to your direct testimony at page 34, lines 6-9. You state that

“Degen simply distributes these costs within whatever mail processing cost pool employees were clocked into, ignoring the much more accurate distribution keys available to the Postal Service and the Commission for distributing such costs.”

Also please refer to your direct testimony at page 11, lines 14-16:

“Since Bradley’s analysis of the FSM cost pool was based on all wage costs for employees clocked into FSM MODS codes, **regardless of what those employees were actually doing.....**” (emphasis added)

- a. If employees are clocked into FSM MODS codes but were doing other work, please explain the effect of this “misclocking” on Bradley’s variability estimates for the FSM MODS pools.
- b. Please explain why you find these “misclocking” errors to be important in the distribution of the costs to subclasses of mail but you do not find these same errors to be problematic when Bradley performs his variability analysis.

NAA/TW-T1-5.

a-b. It should have no effect. Bradley performed an econometric analysis of certain cost pools defined by groups of MODS numbers, including the FSM cost pool, and reached certain conclusions regarding the variability of the costs in those pools with regard to volume. For purpose of variability analysis (as opposed to cost distribution), the relevant factor is what cost pool employees were clocked into, not what precise activity they were doing. Bradley’s analysis must be judged by the soundness of his mathematical approach, his choice of independent variables and other technical factors, not on what employees incurring costs in the various pools were actually doing.

On the other hand, when it comes to distributing these costs to subclasses and special services, the question of precisely which activities the costs represent becomes crucial, because all classes of mail do not require the same type of work to be performed. The example I use at page 11 in my testimony is when an employee was actually selling stamps or setting meters in a postal window. In that particular example, it should be obvious that responsibility for these costs must be distributed according to how much different classes make use of stamps and meters. The problem is not with the “misclocking” of employees at the FSM or any other cost pool, only with Degen’s failure to take this misclocking into account when distributing mixed mail and not handling costs.

There is no conflict between the two cited parts of my testimony.

DECLARATION

I, Halstein Stralberg, declare under penalty of perjury that the foregoing answers to interrogatories are true and correct, to the best of my knowledge, information and belief.



Date: February 5 , 1998